

Markets This Week Ahead of the Open

Key Takeaways

- Markets decline as fading Iran resolution hopes and geopolitical tensions weigh on sentiment
 - Broadcom earnings spark tech selloff, raising concerns over stretched AI valuations
 - Strong jobs data reinforces hawkish Fed expectations and higher-for-longer rates outlook
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This past week saw markets close on a negative note, as investors digested volatile macroeconomic data, and questioned the rotation into tech names. Throughout the week, sentiment toward a resolution for the Iranian conflict gradually weakened as hostilities in the Middle East continued. On Wednesday, the House of Representatives also passed a War Powers Resolution that limited President Trump's use of military forces in Iran. Market reaction was muted in response to this development, however the President did claim that the "meaningless vote" came during the final stages of his negotiations. Negotiations talks have continued to stall as time has gone on, and up until recently this has been overshadowed by enthusiasm for tech names. However, following the release of Broadcom's highly anticipated second-quarter earnings, this started to change.

Going into its earnings release on Wednesday, Broadcom shares were trading at all-time high following a wave of investor enthusiasm. While the quarter saw fundamentals above analyst estimates, guidance came short. In particular, AI chip sales were guided below consensus expectations, while the full-year outlook for semiconductor sales remained unchanged. Following the release, shares fell around 12% as investors assessed the broader impact of these results.

Broadcom's earnings release accelerated concerns surrounding AI-related valuations, contributing to a broader pullback across semiconductor and technology names. Investors have started questioning the stability of the recent AI-trade and the exposure of those involved. The impacts of this rotation were further amplified on Friday, following the release of this month's job report.

This month's report underscored the resilience of the labor market, as 172,000 jobs were added in May. In addition, April's job growth was revised upward to 179,000, while March's figure was revised higher to 214,000. Our current macroeconomic backdrop has been extremely uneven, with the labor market remaining resilient despite elevated inflationary pressures. This month's release further added on to this trend. Since the start of the Iran war, markets have focused on what its impacts could mean for monetary policy moving forward. Prior to the conflict, markets had been pricing in one to two rate cuts by the end of the year. Following this month's jobs report and the persistence of the Iran conflict, markets are now pricing in at least one rate hike this year.

Markets extended losses after this change in sentiment, further adding on to the rotation out of tech names seen on Thursday. The tech sector saw the largest losses during Friday's sell-off. Value-oriented sectors like telecommunications and industrials saw losses as well, but at smaller magnitudes. The key question moving forward is whether this past week's sell-off represents a temporary reassessment of AI-related valuations or the beginning of a broader rotation away from high-growth technology names. Continued geopolitical uncertainty and a more hawkish interest-rate outlook would likely reinforce this shift.